


Future challenges and main drivers for the electricity sector – Authority's view



Finnish Energy Market Authority
Legal Adviser
Elina Hautakangas
10.4.2013

Table of contents

- 
1. Main legal drivers related to the Energy infrastructure
 - PCI Regulation
 - Main changes to the current praxis
 - ITC-Regulation
 - The future of ITC-regulation
 - LRAIC – Long-run average incremental costs
 2. Remaining challenges to the EU investments

Main legal drivers related to the Energy Infrastructure

- **New PCI Regulation**
 - aims to make sure that strategic energy networks and storage facilities are completed by 2020
 - Includes the provisions on permit granting, public participation and the implementation of projects of common interest
- **ITC-Regulation (Commission Regulation 838/2010)**
 - mechanism for the compensation of TSOs for the costs of hosting cross-border flows of electricity
 - TSOs should be compensated for energy losses resulting from hosting cross-border flows of electricity.



Proposal for a Regulation on guidelines for trans-European energy infrastructure

Background - insufficient investments to the infrastructure in the past

Objective - to develop infrastructure and to assure compatibility with the EU targets

- **Main features**

- Project of Common Interest (PCI) selection process for new investments
- Regulatory functions and speeding up the investment processes for PCIs (competent regulator in charge of the process)
- Cross-border cost sharing

- **A few provisions for indication of content of the Regulation:**

- | | |
|----------------------------|---------------------|
| – Union-wide list on PCIs | – <i>Article 3</i> |
| – Criteria | – <i>Article 4</i> |
| – Priority status | – <i>Article 8</i> |
| – Permit granting process | – <i>Article 9</i> |
| – Eligibility of projects | – <i>Article 15</i> |
| – Reporting and evaluation | – <i>Article 16</i> |

PCI Regulation – Main changes to the current praxis

- **Essential provisions and practice:**
 - 1. *Additional regulatory drivers for infrastructure projects***
 - Removing obstacles related to the granting of permits, regulatory issues and financing
 - 2. *Conditions for EU funding***
 - Fulfilling the criteria and eligibility of projects
 - 3. *Approval of common CBA-principles***
 - ENTSO-E prepares
 - 4. *Cross-border cost allocation***
 - Article 12 – Enabling xb-investments



PCI Regulation – Main changes to the current praxis

1. Additional regulatory drivers for infrastructure projects

- Speeding the permit granting processes
- Setting obligations/sanctions to meet the time limits
 - Planning
 - Regulatory Approval and Permitting
 - Building and Deployment

2. Conditions for EU funding

- Fulfilling the requirements set in the qualification process
- The difficulty of agreeing on the projects on voluntary basis



PCI Regulation – Main changes to the current praxis

3. Approval of common CBA principles *(Article 12)*

- To assess the European wide projects TYNDP process from the same starting point
- Prepared by ENTSO-E after stakeholder consultations
- Opinion given by ACER

4. Cost allocation related to the benefits of the projects

- Cost sharing with the beneficiaries (on MS level)
- Cross-border cost allocation decision
- Cost must be reasonable, transferred to end-users



ITC – Compensation Mechanism

The future of ITC-regulation

- **ACER recommendation on the ITC-infrastructure fund to the Commission:**
 1. The fund should be limited to the existing infrastructure
 2. NRAs should engage into cross-border capacity allocation (CBCA) agreements
 - Leading to ex-ante analysis of the planned projects using CBA methodology
 3. Where relevant also the implementation of ex post compensation mechanism (loop-flow & XB-flows)
- **The funds suggested to be frozen to 2015 level and will be faded out**
 - The fund in its current form hinders investments

Recommendation available at:

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Recommendations/ACER%20Recommendation%2005-2013.pdf

LRAIC – Long-run average incremental costs

- **ACER Recommendation on LRAIC**
 - Allowed the removal of transit fees on cross-border trade in the integration face
 - Appropriate to industries where the objective is to facilitate the entry
 - ITC mechanism is used to fix compensation rules between TSOs
 - LRAIC has not been established as a relevant cost assessment methodology
- Possible losses and the effects of loop-flows will be compensated separately according to the benefits (ITC-Regulation)

Recommendation available at:

http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Opinions/Opinions/ACER%20Opinion%2007-2013.pdf

Remaining challenges to the EU investments

- **Discussion on current investments**
 - It has been stated that the investment decisions all ready made won't be compensated for long
- **Insufficient investments to the grid and the lack of funding**
 - The PCI Regulation cannot force anyone to participate to the PCI process and invest to the infrastructure
 - Slow investments in some countries due to the lack of incentive (congestion income etc.)
- **The assessment process**
 - The geographical scope and the different regional groups
 - Is there a risk that the decisions made in different groups are not comparable?
- **The future of the cost-sharing principle**
 - Can the MS agree on the terms?



***Ennakoivaa energiamarkkinoiden valvontaa
Aktiivista markkinoiden edistämistä
Asiantuntevaa palvelua***

Thank you for attention!

Legal Adviser Elina Hautakangas, tel. 029 5050 020

Elina.hautakangas@emvi.fi

www.energiamarkkinavirasto.fi

www.acer.europa.eu

http://ec.europa.eu/energy/gas_electricity/index_en.htm

